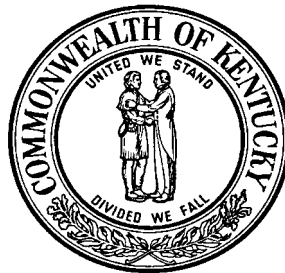


**REPORT OF THE AUDIT OF THE  
MORGAN COUNTY  
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period  
May 27, 2007 Through May 31, 2008**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MORGAN COUNTY**  
**SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period**  
**May 27, 2007 Through May 31, 2008**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for the Morgan County Sheriff for the period May 27, 2007 through May 31, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$2,919,994 for the districts for 2007 taxes, retaining commissions of \$120,702 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,789,918 to the districts for 2007 taxes. Taxes of \$9,374 are due to the districts from the Sheriff.

**Report Comments:**

2007-01 The Sheriff Should Timely Pay Taxes To Districts  
2007-02 The Sheriff Should Distribute 10% Add-On Fees As Required By Law  
2007-03 The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits on December 7, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured     \$420,393

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Timothy Conley, Morgan County Judge/Executive

Honorable Mickey Whitt, Morgan County Sheriff

Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the Morgan County Sheriff's Settlement - 2007 Taxes for the period May 27, 2007 through May 31, 2008. This tax settlement is the responsibility of the Morgan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Morgan County Sheriff's taxes charged, credited, and paid for the period May 27, 2007 through May 31, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 12, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Timothy Conley, Morgan County Judge/Executive  
Honorable Mickey Whitt, Morgan County Sheriff  
Members of the Morgan County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

2007-01 The Sheriff Should Timely Pay Taxes To Districts  
2007-02 The Sheriff Should Distribute 10% Add-On Fees As Required By Law  
2007-03 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

June 12, 2009



MORGAN COUNTY  
MICKEY WHITT, SHERIFF  
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period May 27, 2007 Through May 31, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 135,792	\$ 676,538	\$ 1,117,863	\$ 300,683
Tangible Personal Property	17,712	116,775	143,281	122,148
Fire Protection	3,521			
Increases Through Exonerations	26	129	213	57
Franchise Taxes:				
Current Year	16,650	109,203	134,735	
Prior Year	3,951	24,422	31,765	
Additional Billings	9	43	71	19
Unmined Coal - 2006 Taxes	417	2,095	3,408	972
Gas Property Taxes	1,749	8,714	14,398	3,873
Oil Property Taxes	341	1,698	2,806	755
Limestone, Sand and Gravel Reserves	129	643	1,063	286
Bank Franchises	33,167			
Penalties	2,843	15,224	22,901	10,591
Adjusted to Sheriff's Receipt	4	22	8	(3)
Gross Chargeable to Sheriff	<u>216,311</u>	<u>955,506</u>	<u>1,472,512</u>	<u>439,381</u>
<u>Credits</u>				
Exonerations	1,211	6,119	9,946	3,022
Discounts	2,837	11,094	17,451	4,863
Delinquents:				
Real Estate	6,346	30,959	51,154	13,759
Tangible Personal Property	50	332	407	358
Oil and Gas Taxes	62	307	507	336
Unmined Coal - 2000 Taxes	4	22	35	10
Uncollected Franchise Taxes	171	988	1,366	
Total Credits	<u>10,681</u>	<u>49,821</u>	<u>80,866</u>	<u>22,348</u>
Taxes Collected	205,630	905,685	1,391,646	417,033
Less: Commissions *	<u>9,027</u>	<u>37,998</u>	<u>55,666</u>	<u>18,011</u>
Taxes Due	196,603	867,687	1,335,980	399,022
Taxes Paid	<u>196,275</u>	<u>864,279</u>	<u>1,330,428</u>	<u>398,936</u>
Due Districts		**		
as of Completion of Audit	<u>\$ 328</u>	<u>\$ 3,408</u>	<u>\$ 5,552</u>	<u>\$ 86</u>

\* and \*\* - See next page.

The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY  
MICKEY WHITT, SHERIFF  
SHERIFF'S SETTLEMENT - 2007 TAXES  
For The Period May 27, 2007 Through May 31, 2008  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	1,320,856
4% on	\$	1,589,138

\*\* Special Taxing Districts:

Library District	\$	644
Health District		631
Extension District		1,032
Soil Conservation District		91
Ambulance District		<u>1,010</u>
Due Districts	\$	<u><u>3,408</u></u>

MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENT

May 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Morgan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 31, 2008  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Morgan County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, on December 7, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$420,393

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 26, 2007 through May 31, 2008.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2006. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 20, 2007 through February 28, 2008.

Note 4. Interest Income

The Morgan County Sheriff earned \$3,167 as interest income on 2007 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Morgan County Sheriff collected \$36,813 of 10% add-on fees allowed by KRS 134.430(3). \$13,473 of this amount was used to operate the Sheriff's office. As of June 12, 2009, the Sheriff owed \$23,340 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Morgan County Sheriff collected \$140 of advertising costs and \$140 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Timothy Conley, Morgan County Judge/Executive  
Honorable Mickey Whitt, Morgan County Sheriff  
Members of the Morgan County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Morgan County Sheriff's Settlement - 2007 Taxes for the period May 27, 2007 through May 31, 2008, and have issued our report thereon dated June 12, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Morgan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Morgan County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Morgan County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the following deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting: 2007-03.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Morgan County Sheriff's Settlement - 2007 Taxes for the period May 27, 2007 through May 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2007-01 and 2007-02.

The Morgan County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Morgan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

June 12, 2009



## COMMENTS AND RECOMMENDATIONS



MORGAN COUNTY  
MICKEY WHITT, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period May 27, 2007 Through May 31, 2008

STATE LAWS AND REGULATIONS:

2007-01 The Sheriff Should Timely Pay Taxes To Districts

KRS 134.300(2) and KRS 134.320(2) state the Sheriff shall, at the time of making his report to taxing districts, pay to the districts all funds belonging to the districts. However, the Sheriff did not make timely payments to all districts. We could not determine that payments to the districts had been made for franchise taxes collected during July 2007 and October 2007. Reports were prepared for these collections, but we could not determine that payments were made to the districts. Franchise taxes due the districts for these months totaled \$4,958. All taxes collected and due the districts have been included on the financial statement included in this audit report. Therefore, we have accounted for these items and any amounts reported as due the districts on the financial statement are net of items included in this comment. We recommend the Sheriff comply with KRS 134.300(2) and KRS 134.320(2) by timely paying taxes to the districts.

*Sheriff's Response: All tax payments were collected, deposited, and distributed to the districts.*

2007-02 The Sheriff Should Distribute 10% Add-On Fees As Required By Law

The Sheriff collected \$36,813 of 10% Add-On Fees during 2007 tax collections as allowed by KRS 134.430(3). These 10% Add-On Fees were collected during calendar year 2008 and should have been used to benefit the 2008 fee account. KRS 134.300(1) requires the Sheriff to report, by the tenth day of each month, the amount of taxes, fines, forfeitures, or other monies collected by him for the preceding month. KRS 134.300(2) requires the Sheriff to pay, at the time of making his month end reports, all funds belonging to others. The Sheriff paid \$13,473 of 10% Add-On Fees to the 2008 Fee Account. An additional \$23,340 of 10% Add-On Fees are due the Sheriff's 2008 Fee Account. Since calendar year 2008 is over, failure to pay these 10% Add-On Fees in a timely manner prevented the Sheriff's from using these funds. We recommend the Sheriff pay from the 2007 tax account an additional \$23,340 to the 2008 Fee Account, which should then be turned over to the fiscal court as additional 2008 excess fees. We recommend the Sheriff distribute 10% Add-On Fees in accordance with KRS 134.430 and KRS 134.300.

*Sheriff's Response: Our office will distribute all 10% add-on fees from the 2007 tax account to the 2008 fee account.*

MORGAN COUNTY  
MICKEY WHITT, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period May 27, 2007 Through May 31, 2008  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS:

2007-03 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties due to the responsibilities of receiving, depositing, disbursing, recording, and reconciling cash being delegated to the same individual. The functions of receiving, depositing, disbursing, recording, and reconciling cash should be separated whenever possible in order to decrease the risk that the misappropriation of assets and/or inaccurate financial reporting will occur and go undetected. Since only one person performs most of these functions, there is no assurance that financial transactions are accurate, complete, and free of errors/misstatements. We recommend the Sheriff segregate the duties of receiving, depositing, disbursing, recording and reconciling cash or implement and document compensating controls to offset this control deficiency. Examples of compensating controls include: the Sheriff comparing the daily checkout sheet to batched tax bills, comparing the daily checkout sheet to the receipts ledger and the bank deposit, reviewing bank reconciliations for accuracy, performing surprise cash counts, and reviewing all financial reports. The Sheriff should document his review process by initialing reports and supporting documentation.

*Sheriff's Response: Our office is small and we are understaffed due to lack of funding. We feel that all duties are being performed and we are adequately fulfilling our responsibilities.*

